

Selling

Rental Houses to Tenants

by Rob Massey, Jr., CPM®



In the business of managing single-family homes occasionally a tenant will inquire about the purchase of the home that they are renting. This situation presents an opportunity for us to supplement our income from sales commissions and should be considered as a potential benefit to being in the management business.

Over the years I have sold many rental homes to existing tenants. For me it has always been icing on the cake. It's funny; even though it results in the loss of a management account, the spike in the revenue from the sale more than offsets the loss of monthly revenue produced by the management of the property at least in my head. It seems that we often give up a few headaches when the management account goes away also making the loss of monthly revenue a little more digestible.

The best part about these types of sales is that the owner, the tenant and my company all benefit. This is of course assuming that the owner is willing to sell the property. For my company, surprisingly, most times the owner is willing to entertain an offer. The owner benefits from receiving rent all the way up to the date of closing with little or no fix-up costs and the commission expense to the owner is typically half of the normal amount that we charge. The resident gains from their being able to try out the house for a period prior to buying and they don't have to move. Finally, my company benefits from a quick sale and the resulting commission.

Prior to getting involved in any type of sale such as these we always check our original notes in our owner file to make sure that we haven't obtained the management account through a referring Realtor. Many Realtors refer new owners to us and we certainly want to return the favor in the event that a sale is about to transpire especially if we desire to continue getting referrals from him or her.

If no referring Realtor is involved in the beginning it is always a good idea at the inception of the client relationship to inform your new customer that you also handle the selling of real estate should that need or desire ever arise. You may not want to ever list real estate for sale but negotiating a sale transaction with an

already identified buyer and seller is normally an opportunity to earn some worthwhile additional income. I always find it surprising that most owners do not understand that the license necessary for managing real estate is also the same one in our state (KY) required for selling it. The owners typically state that, "I didn't know that you are also a Realtor."

Be aware of the laws of agency in your state. In my state representing both the buyer and the seller falls under the rules for Limited Dual Agency. Make sure that you are familiar with how your state treats this type of sale and that you have clearly informed both buyer and seller about whom you are representing and the limits of your role with each party.

Selling rental houses to existing residents may promote the shrinking of your portfolio but at least you have the option of having it go out with a bang in the form of additional revenue. If you do not currently engage in this practice and are licensed to do so, you should consider the merits that selling rental houses to tenants offer.



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